

4 April 2018



## Events Round-Up

AU: RBA cash rate target (%), Apr: 1.5 vs. 1.5 exp.  
 UK: Markit PMI manufacturing, Mar: 55.1 vs. 54.7 exp.  
 NZ: GDT dairy auction avg. winning price: -0.6%

## Good Morning

On a slow news day, US equities are modestly higher after the chunky fall yesterday. Commodity currencies have outperformed and UST yields are higher on the improved market sentiment.

Not long after we went to press yesterday, reports came through that Trump was pushing for an initial NAFTA deal that could be announced at a summit in Peru next week. Political deadlines are approaching, with Mexico elections in July and US mid-terms in November. Authorities say that a deal needs to be concluded before the end of April otherwise the passage of a new deal gets much trickier.

Markets were slow to react to this development, but we got there in the end, with CAD proving to be the best performing currency and with other commodity currencies riding on its coat tails, alongside some improvement in market sentiment. CAD is about 1% stronger since the NAFTA headlines came out and NZD/CAD down to around the 0.93 mark. Last week we published a positive note on CAD and suggested that NZD/CAD had at least 5% downside potential on receding NAFTA fears.

The NZD is up 0.7% to 0.7260, with much of that gain seen after the NZ close. The latest GDT dairy auction showed average prices falling by 0.6%, in line with expectations. It was the fourth consecutive fall in a row, although the reduction in prices has been modest against the prior ramp up earlier this year. Whole milk powder prices rose by 1.6%.

The AUD has lagged the move higher in commodity currencies. NZD/AUD got down to as low as 0.9384 yesterday afternoon but has recovered to around 0.9450. The RBA announcement proved to be a non-event, as expected, with the Bank leaving the last four paragraphs unchanged from the March statement. The Bank remains in a wait and see mode and unwilling to change guidance towards higher rates at this stage.

Economic data has been sparse but Detroit automakers reported much stronger than expected auto sales, allaying some fears about slowing consumer demand. This has

helped market sentiment and seen US 10-year Treasury rates nudge higher to 2.78%, about 4bps higher relative to the NZ close.

The benchmark NZ 10-year bond (2027) fell to as low as 2.70% yesterday, a level not seen since June last year. But most NZ rates ended yesterday slightly higher as the market mood turned more positive during Asian trading.

In other news, current regional Fed President Williams will replace the NY Fed's Dudley from mid-June. This will give Williams a permanent vote on the FOMC. He is considered centrist and he currently favours the consensus view of three or four rate hikes for 2018. He is well known for his views of "R\*", or the neutral interest rate, which he believes has fallen substantially since the GFC and may stay low.

With the improved market sentiment, JPY is the weakest of the majors. USD/JPY is up 0.5% to 106.5 while NZD/JPY is up over 1% to 77.3. The BoJ's Kuroda told Parliament that the central bank is talking about how to eventually exit from its massive stimulatory programme, but it's still too early to reveal details. The yen jumped higher on those headlines but the move wasn't sustained and it seems that bigger global forces are dominating JPY at present.

The economic calendar in the day ahead is heavy. Our NAB colleagues are picking a stronger than consensus Australian retail sales figure this afternoon. The key releases tonight are euro-area inflation, US ADP employment and the ISM non-manufacturing index. A couple of Fed speakers are out overnight including Mester who votes this year on the FOMC.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ consumer confidence	Mar		127.7	10:00
AU	Building approvals (m/m%)	Feb	-5	17.1	13:30
AU	Retail sales (m/m%)	Feb	0.3	0.1	13:30
CH	Caixin PMI services	Mar	54.5	54.2	13:45
UK	Markit construction PMI	Mar	51.0	51.4	20:30
EC	Unemployment rate	Feb	8.5	8.6	21:00
EC	CPI Core (y/y%)	Mar	1.1	1.0	21:00
EC	CPI (y/y%)	Mar	1.4	1.2	21:00
US	ADP employment change (k)	Mar	210	235	00:15
US	Fed's Bullard speaks on US econ. & mon. pol.				01:45
US	ISM non-manf. composite	Mar	59.0	59.5	02:00
US	Fed's Mester speaks on diversity in economics				03:00
NZ	QV house prices (y/y%)	Mar		6.5	05:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)				Other FX		Major Indices			Price						
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7261	+0.7	0.7225	0.7271	CHF	0.9590	+0.4		S&P 500	2,584	+0.1	9.5	Oil (Brent)	68.04	+0.6
AUD	0.7680	+0.2	0.7667	0.7707	SEK	8.406	+0.2		Dow	23,809	+0.7	15.3	Oil (WTI)	63.43	+0.7
EUR	1.2269	-0.3	1.2254	1.2336	NOK	7.855	-0.4		Nasdaq	6,896	+0.4	17.0	Gold	1332.8	-0.7
GBP	1.4056	+0.1	1.4021	1.4089	HKD	7.849	+0.0		Stoxx 50	3,347	-0.4	-3.9	HRC steel	866.0	+0.7
JPY	106.53	+0.6	105.76	106.59	CNY	6.290	+0.2		FTSE	7,030	-0.4	-4.6	CRB	193.2	-0.1
CAD	1.2807	-0.8			SGD	1.312	-0.0		DAX	12,002	-0.8	-2.1	Wheat Chic.	474.0	+2.0
NZD/AUD	0.9454	+0.4			IDR	13,764	+0.1		CAC 40	5,152	-0.4	1.2	Sugar	12.47	-0.4
NZD/EUR	0.5918	+0.9			THB	31.21	-0.1		Nikkei	21,292	-0.5	13.2	Cotton	82.02	+1.3
NZD/GBP	0.5166	+0.5			KRW	1,055	-0.2		Shanghai	3,137	-0.8	-2.7	Coffee	116.6	+0.2
NZD/JPY	77.35	+1.3			TWD	29.14	+0.1		ASX 200	5,752	-0.1	-1.8	WM powder	3140.0	-0.2
NZD/CAD	0.9299	-0.2			PHP	52.05	+0.0		NZX 50	8,330	+0.1	15.0	<b>Australian Futures</b>		
NZ TWI	74.86	+0.7											3 year bond	97.845	-0.03
<b>Interest Rates</b>					<b>Benchmark 10 Yr Bonds</b>			<b>NZ Government Bonds</b>			<b>NZ Swap Yields</b>				
	Rates				Swap Yields		Last		Net Day		Last		Last		
	Cash	3Mth	2 Yr	10 Yr											
USD	1.75	2.31	2.59	2.80	USD	2.78	0.05	NZGB 6 05/15/21	2.04	0.02	1 year	2.08	0.01		
AUD	1.50	2.04	2.09	2.82	AUD	2.61	0.01	NZGB 5 1/2 04/15/23	2.31	0.02	2 year	2.23	0.01		
NZD	1.75	1.98	2.22	3.07	NZD	2.72	0.00	NZGB 2 3/4 04/15/25	2.54	0.01	5 year	2.63	0.01		
EUR	0.00	0.06	-0.15	0.96	GER	0.50	0.00	NZGB 4 1/2 04/15/27	2.72	0.00	7 year	2.84	0.01		
GBP	0.50	0.71	1.12	1.52	GBP	1.36	0.01	NZGB 3 04/20/29	2.92	0.00	10 year	3.07	0.00		
JPY	-0.08	-0.03	0.05	0.25	JPY	0.03	-0.02	NZGB 3 1/2 04/14/33	3.11	-0.00	15 year	3.31	0.01		
CAD	1.25	1.17	2.18	2.55	CAD	2.14	0.02	NZGB 2 3/4 04/15/37	3.32	-0.01					

\* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:54

Source: Bloomberg

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